

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition by Xcel Energy for
Approval of 2005 Project Eligibility Factor,
Deferred Accounting Request, and Compliance
Filing

ISSUE DATE: January 9, 2006

DOCKET NO. E-002/M-05-289

ORDER APPROVING PROJECTS FOR
COST RECOVERY, DEFERRED
ACCOUNTING, AND RENEWABLE COST
RECOVERY RIDER

PROCEDURAL HISTORY

Transmission costs are normally included in base rates. Therefore, utilities recover the costs included in the test year from ratepayers. In cases where transmission projects go into service between rate cases, utilities do not recover the costs of those projects until the next rate case. To encourage renewable energy development, Minn. Stat. § 216B.1645 was created to alleviate this timing difference for facilities built to transmit renewable energy.

The Commission, by Order dated April 2, 2002 in docket E-002/M-02-474, approved an annual RCR (Renewable Cost Recovery) tariff and tracker account mechanism. The mechanism anticipated annual filings to incorporate the eligible costs for each year, offset by costs recovered through the RCR rate rider each year, with a true-up going forward.¹

This case involves Xcel Energy's February 17, 2005, petition pursuant to Minn. Stat. § 216B.1645 and Minnesota Rule 7829.1300, for an Order approving its 2005 Renewable Energy Cost Rider

¹ The Commission, by Order dated March 8, 2004 in Docket E-002/M-03-1882, approved the implementation of the first RCR automatic rate adjustment. The charge was set at \$0.00020 per kWh for the residential class (charge varies by customer class).

(RCR) adjustment factor. Xcel's filing combines Steps 1 and 2 from its RCR tariff and the process established by Commission Order dated January 14, 2003, in Docket No E-002/M-02-474.²

On February 17, 2005, Xcel filed its request to increase the RCR rate rider to \$0.00051 per kWh (\$0.38 per month on the average residential bill) to reflect its December 31, 2004 tracker balance and expected transmission costs (from renewable sources) for 2005. In addition, Xcel sought approval of 2005 transmission projects as projects eligible for recovery under Minn. Stat. § 216B.1645. Xcel listed the projects on Attachment 1 to its filing.

The Department of Commerce (the Department) filed comments on October 3, 2005. The Department recommended approval, but only with several modifications to the proposal.

Xcel filed its reply on October 21, 2005. In its reply, Xcel updated its calculations, proposing a new RCR rate rider charge of \$0.00018 per kWh (residential) to be effective during 2006. Xcel proposed that the 2006 costs incurred for the transmission from renewable sources be included as test year costs in the pending Xcel electric rate case, with the result that no RCR filing for 2006 costs would be necessary. Xcel did not agree with all of the modifications recommended by the Department.

On December 15, 2005, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Statement of the Issues

There are three main issues before the Commission:

- 1). Should the Commission approve the 2005 list of projects as eligible projects for inclusion in the Renewable Cost Recovery Rider (RCR)?
- 2). Should the Commission approve the deferred accounting, property tax recovery, O & M costs, and carrying charges as recoverable under the RCR rider?
- 3). Should the Commission approve the revised tariff language to implement the RCR changes?

² The Step 1 filing is to determine if transmission projects are eligible projects for recovery via the RCR tracker. The Step 2 filing is to authorize recovery through the RCR automatic rate adjustment.

II. Summary of Commission Action

The Commission approves the projects listed on Attachment 1 of Xcel's February filing as 2005 eligible transmission projects for cost recovery consideration, and grants deferred accounting for facilities needed to upgrade on Alliant's system. The Commission approves the RCR tracker cost recovery with modifications, including allowing the property tax to run through the RCR tracker, allowing transmission capital costs to run through the tracker but not O & M costs, and disallowing carrying charges.

The Commission approves Xcel's request to delay the filing of the 2006 filing. The Commission will require Xcel to provide a transmission credit, with supporting calculations, for the amounts collected through the RCR in the initial filing of its next rate case. Finally, the Commission will require Xcel to file updated calculations and an implementation proposal within 30 days of the Order in this proceeding.

These actions are explained below.

III. Renewable Cost Recovery Rider Projects

A. Positions of the Parties

Xcel sought approval of 2005 transmission projects as eligible for recovery under Minn. Stat. § 216B.1645, which provides:

Subdivision 1. Commission authority. Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, including the reasonable investments and expenditures made to transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, or to develop renewable energy sources from the account required in section 116C.779.

Subdivision 2. Cost recovery. The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C.779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission, which, in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy. The commission may not approve recovery from the costs for that portion of the power generated from sources governed by this section that the utility sells into the wholesale market.

Minn. Stat. § 216B.1645 allows for an automatic adjustment of charges to permit the recovery of certain transmission costs incurred to transmit power from renewable sources of energy. Xcel listed the projects on Attachment 1 to its February 17, 2005, filing.

The Department reviewed the eligible projects for which Xcel is seeking recovery. The Department asked Xcel to provide supporting information to show that certain projects (9 - 14) were clearly for renewable energy. After review of Xcel's response, the Department recommended that the Commission approve the projects listed as 2005 eligible transmission projects for cost recovery consideration.

B. Commission Action

The Commission finds that the projects listed are all part of the infrastructure Xcel uses to transmit power from renewable sources of energy. They are all "related to the provision of renewable energy" and meet threshold requirements for inclusion in the Renewable Cost Recovery tracker account. The Commission approves the listed 2005 transmission projects as projects eligible for cost recovery consideration.

IV. Deferred Accounting Request for Cost Recovery

A. Positions of the Parties

Xcel sought deferral of expense items associated with Project 14, Lakefield Junction to Fox Lake 161 kV line project with Alliant. Xcel sought deferred accounting for the expense portion (as compared to the capital portion) to allow for treatment in the 2006 RCR rate rider, after the project is in service. The costs at issue include \$950,000 of payments made to Alliant for facilities to be constructed and owned by Alliant.

The Department supported deferral and cost recovery of the \$950,000 for facility upgrades on Alliant's system.

B. Commission Action

The Commission will grant deferred accounting for \$950,000 for facilities that Xcel needs to upgrade on Alliant's system. It is more efficient to make payments to Alliant for work on an existing line than to construct an entirely new and duplicative line. Additionally, if Xcel were to build its own transmission facilities, the costs would be considered capital expenses. Generally Accepted Accounting Principles (GAAP) require this type of contribution to be recorded as an expense, not as a capital asset.

Xcel also had originally requested deferral of costs totaling approximately \$1.2 million for costs Xcel may need to pay for the incremental increase in Alliant's energy costs due to the need to use out-of-order dispatch to maintain transmission system stability during construction. Minn. Stat. § 216B.1645 is focused on capital investments related to transmission infrastructure needed to deliver renewable energy. The \$1.2 million costs do not represent costs that are capital in nature. Xcel has now verified that the costs are not an issue in this proceeding.

V. Recovery of Transmission Costs for Unrelated Uses

A. Positions of the Parties

The parties agreed to the following as stated in the Commission's Order in Docket No. E002/M-03-1882:

The Company and Department agree that the transmission investment in this petition are related to renewable energy and are recoverable under the RCR adjustment. Going forward, the parties agree that some allocation (allocation determined at the time of the investment and based on planned use of the facility) may be needed for transmission resources serving multiple purposes and should be addressed in any such future applications.

The Department asked Xcel to explain for each new 2005 eligible project whether the transmission is fully subscribed with renewable energy or whether some allocation is necessary. Xcel stated that all of the eligible projects for 2005 are fully subscribed with renewable energy and no allocation is needed.

B. Commission Action

The Commission finds, based on the representations of Xcel, that no allocation to exclude recovery of transmission costs not related to renewable energy is needed at this time. However, the Commission will require Xcel to address the allocation issue in future compliance filing.

VI. Recovery of Property Taxes Under the RCR

A. Positions of the Parties

Xcel included the 2005 property taxes related to the new transmission plant in its determination of the revenue requirements for inclusion in the RCR rate rider charge.

The Department agreed that property taxes are a result of building and upgrading transmission facilities, but disagreed with the inclusion of property taxes in the RCR rate rider charge on a going-forward basis. The Department argued that the taxes should be addressed in the upcoming rate case. Further, the Department indicated concern that the RCR rate rider was at risk of including overly broad types of costs. The Department recommended a statutory interpretation which would limit recovery in the RCR to capital type costs, with other types of related costs being recovered in rate cases.

In its reply, Xcel disagreed with the Department's recommendation to exclude the 2005 property tax expenses related to the transmission facilities constructed to transmit energy from renewable sources. Xcel asserted that the construction of the facilities resulted in taxes being assessed in 2005. These costs are necessary to transmit the power and should be allowed recovery in the RCR rate rider.

B. Commission Action

The Commission finds that it was the construction of the facilities needed to move renewable energy that caused Xcel to incur the 2005 property taxes, as they result directly from the state or local taxing authorities' assessment of the facilities. But for the eligible projects, Xcel would not have incurred the those taxes. The costs are clearly necessary to support the need to transmit power from renewable energy sources.

Allowing recovery in a rate case, as proposed by the Department, normally does not allow for recovery of costs already incurred. The 2005 property taxes would be outside of the test year used in the rate case and generally not allowed recovery in a general rate case.

There is no need to defer the 2005 property tax costs to a rate case when the RCR recovery mechanism already provides an appropriate recovery mechanism.

Minn. Stat. § 216B.1645 provides in pertinent part:

Subdivision 2. Cost recovery. . . .*The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C.779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. . . .* (Emphasis Added).

The Commission is persuaded, by virtue of the legislative mandate in Minn. Stat. § 216B.1645, subd. 2, that the 2005 property taxes are recoverable pursuant to the RCR tracker.

VII. Recovery of Operation and Maintenance (O & M) Costs Pursuant to the RCR

A. Positions of the Parties

Xcel included several items of O & M type expense, as identified in Attachments 2 and 3 to the February 2005 filing, in the RCR adjustment.

The Department recommended that the Commission only allow recovery of capital costs for transmission in the RCR. The Department argued that the proper interpretation of Minn. Stat. § 216B.1645 would require the exclusion of O & M expenses.

Xcel argued that it incurs many costs which are not treated as capital expenditures, under accounting rules, when constructing transmission facilities. Mobile transformers may be necessary to maintain service while construction activities are taking place at a substation. These costs cannot be capitalized under GAAP, but are needed to construct the line to transmit electricity from renewable sources. Without incurring these costs, service may need to be interrupted. Xcel argued that the statute is written to require the Commission to determine eligibility based on the expense's relationship to the transmission project, not based on the accounting treatment.

B. Commission Action

The Commission's November 29, 2004, Order, in Docket E-002/M-03-1882, did not authorize recovery of O & M costs through the RCR mechanism, as Xcel did not include them in its request. The November 29 Order stated that "[a]ny future request by the Company [Xcel] to achieve recovery will be addressed at that time.

The O & M costs at issue herein include pre-service testing, setting changes for existing relays, mobile transformer installation, removing facilities in service less than one year, and out-of-merit generation costs. The Commission finds that these types of costs are not recoverable through the RCR tracker in this matter under Minn. Stat. § 216B.1645 in this matter.

The Commission finds that recovery of the requested O & M costs in this matter should be made through Xcel's next rate case. In a rate proceeding, costs for the test year are forecasted and incorporated into the base electric rates, which are then charged for every kWh of sales until rates change in a subsequent rate case.

In summary, capital costs of Xcel or other parties needed as a result of Xcel's upgrades to transmission are appropriately recovered through the RCR tracker. However, items listed as expenses, such as the O & M costs, will not be allowed through the tracker, but rather recovered through Xcel's next rate case.

VIII. Recovery of Carrying Costs Pursuant to the RCR

A. Positions of the Parties

Xcel seeks recovery of nearly \$800,000 of carrying costs as part of the calculation of overall revenue requirements associated with the RCR mechanism. Xcel argued that the RCR is intended to allow it to make full recovery of the costs of delivering renewable energy. Given the timing of the filing and approval of RCR factors, significant lags have occurred between cost incurrence and recovery. Only \$184,000 of the \$5.5 million projected revenue requirements for 2004 were recovered in 2004, with the balance to be recovered in 2005.

The Department opposed recovery of carrying charges.

Xcel based its carrying charges on revenue requirements that already have a return on rate base included. The Department did not support a carrying charge on top of a return on rate base amounts. Xcel did not request a carrying charge when first setting up the RCR tracker; The carrying charge requested is too high. The lag time in recovery in this proceeding is due to disagreements between Xcel and the Department. After the issues have been resolved, rate recovery should be able to better match cost incurrence. Xcel could address this issue of lag in cost recovery in its next compliance filing.

B. Commission Action

The Commission will not authorize recovery of a carrying charge in this matter. The Commission notes that Xcel did not request a carrying charge when first setting up the RCR tracker. The Commission finds that allowing a carrying charge herein, based on a rate of return being applied to a revenue requirement which was already calculated using the rate of return applied to rate base, is not appropriate.

While the Commission agrees that there has been a lag in recovery due to disagreements between the Department and Xcel, once those disagreements are resolved, the time lags should be reduced and recovery more timely. If there are further issues, Xcel will be able to address the issue of lag in cost recovery in its next compliance filing.

IX. Tariff Language

A. Positions of the Parties

Xcel supplied its proposed revised tariff to implement the RCR changes as Attachment 8 to its February 2005 filing.

The Department recommended several changes to the language, to clarify the types of costs being recovered. The changes are directed at distribution costs, which are not at issue in this proceeding:

- 1). The title should be changed to Renewable Transmission Cost Recovery Rider to clarify the types of costs being recovered;
- 2). The first sentence under the heading Rider should be modified to state Renewable Transmission Cost Recovery Rider, consistent with the change in title; and
- 3). The definition of Recoverable Renewable Costs near the bottom of the proposed tariff should be modified to make it clear that Transmission costs associated with renewable energy are allowed recovery, not all costs of delivery of renewable energy (such as O & M costs and property taxes).

The Department recommended replacing the word “delivery” with “Transmission” throughout the definition, to clarify what is recoverable.

B. Commission Action

The Commission recognizes that the law provides for recovery of costs related to transmission facilities needed to transmit power, but not delivery costs. The Commission directs Xcel to use the word Transmission, instead of the word Delivery, in customer notices.

ORDER

1. The Commission hereby approves the projects listed on Attachment 1 of Xcel's February filing as 2005 eligible transmission projects for cost recovery consideration.
2. The Commission hereby grants deferred accounting for \$950,000 for facilities that Xcel needs to upgrade on Alliant's system.
3. The Commission hereby approves the RCR tracker cost recovery with the following modifications:
 - a. The \$1.2 million allowance for out-of-merit dispatch is excluded.
 - b. All 2005 property tax expenditures are excluded.
 - c. All operating and maintenance costs are excluded.
 - d. Carrying charges are excluded.
4. In future filings seeking cost recovery under Minn. Stat. § 216B.1645, Xcel shall address allocations issues in greater detail.
5. Xcel shall make changes recommended by the Department in future filings related to clean-up references, formulas and footnotes.
6. Xcel shall provide a transmission credit, with supporting calculations, for the amounts collected through the RCR in the initial filing of its next rate case.
7. Xcel shall file updated calculations and an implementation proposal within 30 days of the Order in this proceeding.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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